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# HIGHER EDUCATION

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## Overview

The University of California (UC) and the California State University (CSU) perform an essential role in equipping Californians with the knowledge and skills required to meet the challenges of the future. Although the Administration recognizes these institutions are integral to California's economic well-being, the State's current fiscal situation requires that reductions be made to both UC and CSU. As a consequence of the State's current fiscal situation, it is necessary to increase fees for students at these institutions, reduce enrollments, and reduce other expenditures in a way that minimizes, to the greatest extent possible, the impact on classroom instruction.

California's community colleges (CCC) perform an integral role by ensuring that the State's residents are equipped to succeed in an increasingly challenging workplace. While the State's current fiscal situation requires reductions in UC and CSU, the California Constitution's Proposition 98 funding guarantee for K-14 education actually allows for some funding increases for the CCC system in 2004-05 relative to the current fiscal year. These funds are made available for expected increases in students from general population growth, including more prospec-

tive students who will not be able to enroll in UC or CSU as a result of the Legislature's prohibition of providing growth funding for UC and CSU as well as other budget reductions, among other priority needs.

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## Higher Education Access

Access remains a high priority for the Administration. However, given current fiscal constraints, university access cannot be guaranteed for as many students as in the past. Nevertheless, community colleges provide quality undergraduate instruction at significantly lower cost than that of the UC and CSU systems. The CCC will be asked to help accommodate some of the additional demand for lower division courses to prepare students for transfer as a priority when determining course sections to offer in 2004-05. Overall, sufficient access is provided in the Governor's Budget to ensure a place for every qualified student.

In accordance with legislative intent stated in Chapter 228, Statutes of 2003 (AB 1756), the Governor's Budget proposes no funding for enrollment growth at either UC or CSU. If enrollment growth were fully funded in 2004-05, UC estimates its enrollment would grow by approximately 5,000 full-time equivalent students (FTES), and CSU estimates



its enrollment would grow by approximately 10,000 FTES. Because no enrollment growth funding is proposed for 2004-05, the Administration recognizes that UC and CSU may need to expand enrollment growth-control measures that were initiated in 2003-04.

In view of the current fiscal situation, the Administration is also proposing to reduce the enrollment of new freshmen by 10 percent, which would result in approximately 3,200 fewer new students at UC, and 3,800 fewer new students at CSU. The Administration assumes most of these students would enroll in a community college, and transfer to a UC or CSU upon completing the requisite amount of transferable lower-division units. To ensure that these students enroll in the appropriate transferable courses, the Administration encourages the UC and CSU to establish a new dual admissions process for these otherwise-qualified freshmen, and proposes to provide UC and CSU \$500 per student, so they may furnish them with appropriate counseling. This equates to a budget year augmentation of \$1.6 million for UC and \$1.9 million for CSU, as a partial offset to the reduction for reduced enrollments. Additionally, students entering these new agreements would have their community colleges fees waived.

Total funded FTES for 2004-05 at UC and CSU are respectively proposed at 199,428 and 341,587.

Access to education in the CCC system is proposed to grow by approximately 3 percent through the allocation of \$125.1 million to fund growth in both credit and non-credit FTES. This increase will fund services for approximately 1,137,150

FTES in 2004-05 and should be sufficient, in conjunction with other proposals for the CCC, to ensure courses for students who may not be able access a slot at UC or CSU.

### Improving Accountability and Service Delivery in the Universities

As a result of the audit of programs conducted by the Administration, several areas for controlling services and costs were identified. It was found that university fees are generally low compared to their value to students and by comparison with other states, financial aid policies contribute to unsustainable General Fund costs, and subsidies for graduate and professional students are currently too high. Due to the similarities

#### Higher Education Fees

##### ■ 2003-04 Fee Comparison:<sup>a/</sup>

|                                 | <u>UC<sup>c/</sup></u> | <u>Other Public Institutions</u> |                |               |
|---------------------------------|------------------------|----------------------------------|----------------|---------------|
|                                 |                        | <u>Average</u>                   | <u>Highest</u> | <u>Lowest</u> |
| Undergraduate                   | \$4,984                | \$6,873                          | \$8,481        | \$5,851       |
| Graduate                        | \$5,219                | \$9,133                          | \$12,933       | \$7,756       |
| <u>CSU<sup>c/</sup></u>         |                        |                                  |                |               |
| Undergraduate                   | \$2,046                | \$5,272                          | \$7,927        | \$2,830       |
| Graduate                        | \$2,256                | na                               | na             | na            |
| <u>CCC</u>                      |                        |                                  |                |               |
| Full-Time Student <sup>b/</sup> | \$540                  | \$1,957                          | \$4,429        | \$768         |

<sup>a/</sup> 2004-05 fees are proposed to increase for undergraduate and graduate students by 10 and 40 percent, respectively.

<sup>b/</sup> Comparison data for other states reflect 2002-03 fees.

<sup>c/</sup> Fees for UC and CSU do not include campus-based fees of \$546 and \$526, respectively, because it is unknown whether similar fees are included in the comparable institution figures.

##### ■ Both UC and CSU acknowledge that graduate level instruction costs are at least 50 percent higher than the costs of undergraduate instruction.

##### ■ 2003-04 Professional School Fee Comparison:

|               | <u>UC</u> | <u>Other Public/Private Institutions</u> |                |               |
|---------------|-----------|--|----------------|---------------|
|               |           | <u>Average</u>                           | <u>Highest</u> | <u>Lowest</u> |
| Law           | \$16,833  | \$26,413                                 | \$33,690       | \$12,849      |
| Medicine      | \$15,657  | \$27,959                                 | \$35,450       | \$17,949      |
| Business Adm. | \$15,569  | \$28,378                                 | \$39,288       | \$8,159       |

##### ■ Percent of Instruction Paid by Students:

|     |       |
|-----|-------|
| UC  | 29.3% |
| CSU | 20.1% |
| CCC | 11.3% |

in mission, organization, and operations of UC, CSU, and Hastings College of the Law (HCL), this section presents applicable policy solutions that will help the State achieve significant cost reductions in these institutions.

### **New University Long Term Student Fee**

**Policy—**Prior to the 10 percent fee increases implemented by UC and CSU in 2002-03 and 30 percent increases in 2003-04, students at a California public university had not experienced a fee increase in seven years. From 1994-95 through 2001-02, the State provided UC and CSU with General Fund resources sufficient to offset the revenues they would have generated by increasing student fees. In fact, the amounts received by the segments were sufficient to allow them to reduce fees by 5 percent in both 1998-99 and 1999-00. While this practice was possible in times of surplus, the significant decline in available General Fund resources made it impractical to continue this policy. Nevertheless, fees remain very low in comparison to other states and private institutions.

To ensure public university students are protected in the future from dramatic fee increases as a consequence of declines in General Fund resources, the Administration proposes to establish a long-term fee policy to ensure future fee increases are both moderate and predictable. Specifically, the Administration proposes to link future increases in undergraduate student fees to the increase in per-capita personal income, which reflects the ability of families to pay additional fees. However, to ensure sufficient flexibility to address unforeseen fiscal needs, the Administration proposes that the State policy provide sufficient flexibility to increase fees annually by as much as 10 percent.

Because the cost to educate a graduate student is significantly more than the cost to educate an undergraduate student, the

Administration proposes that UC and CSU be allowed to increase graduate student fees at rates that are higher than the annual growth in per-capita personal income until such time as the graduate fee at each segment is 50 percent higher than the undergraduate fee. Once this threshold is achieved, graduate fees would increase at the same rate as undergraduate fees.

Additionally, due to the State's fiscal constraints, it is necessary to reduce the traditional one-third of new fee revenue set aside for institutional financial aid to 20 percent. This may mean middle-income students receive less assistance, and consequently, may need to increase their family contribution or take out additional student loans.

The Administration's long-term student fee policy will have minimal effect on low-income students. Qualifying low-income students will continue to be eligible to receive federal Pell Grants and Cal Grants, and California's higher education segments will continue to provide financial aid to needy students.

### **New Policy Governing Excess Units—**

Current policy in each higher education segment allows students to take as many units of instruction at uniform fee levels as necessary to achieve their educational objectives. Given the State's fiscal constraints, it is reasonable to limit the subsidized college level units a student can take to more equitably ration State funds. Therefore, the Governor's Budget proposes an elimination of the General Fund subsidy for UC and CSU students who take courses in excess of 110 percent of the total units required to earn their degree. This change will help ensure students graduate in a timely manner, and minimize the cost to the State.

Because most undergraduate majors at UC require 180 quarter units, students would



generally begin paying the additional per-unit charge after completing 198 units. Since most undergraduate majors at CSU require 120 semester units, students there would generally begin paying the additional per-unit charge after completing 132 units.

To allow the segments sufficient time to notify students of this new policy, and to avoid creating a major hardship for continuing students who have accumulated excess units in comparison to their current class standing, the Governor's Budget proposes to phase-in the savings that would otherwise be generated in 2004-05. The Governor's Budget further proposes to allow UC and CSU considerable flexibility in implementing this new policy in the most equitable fashion for both undergraduate and graduate students.

**New Professional School Fee Policy**—Most professional school graduates achieve significantly higher income levels after graduation than other graduates. It is reasonable to increase fees to that of comparable institutions, including private universities, depending on the state's need for certain professions, the overall cost of instruction, the current subsidy level, and the earnings potential for the specific profession.

The Governor's Budget proposes a 25 percent reduction in the total General Fund subsidy for UC professional school students, with the exception of nursing programs. In addition, other high-need disciplines such as medicine would receive a proportionally lower reduction of the subsidy. The 25 percent reduction also would apply to HCL. While the Governor's Budget anticipates UC and HCL will increase professional school fees to accommodate these reductions, the Administration proposes the segments have maximum flexibility to determine the percentage increase for each professional school student in context of competitive factors and the other relevant variables mentioned above.

**Proposed Student Fee Adjustments**—In 2003-04, the UC Board of Regents and the CSU Board of Trustees increased student fees by 30 percent to partially offset approximately \$540 million in unallocated General Fund reductions reflected in the 2003 Budget Act. These fee increases were in addition to 10 percent increases that each governing board implemented in 2002-03.

In view of the current fiscal situation, and consistent with the proposed fee policy, the

FIGURE HIED-1

**Higher Education  
Full-Time Equivalent Students**

|                             | 1995-96          | 1996-97          | 1997-98          | 1998-99          | 1999-00          | 2000-01          | 2001-02          | 2002-03          | 2003-04                 | 2004-05                 | 2004-05<br>vs.<br>2003-04 |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|-------------------------|---------------------------|
| University of California    | 154,141          | 155,387          | 157,811          | 161,400          | 165,900          | 171,270          | 185,304          | 196,188          | 202,628 <sup>1/</sup>   | 199,428                 | (3,200)                   |
| Undergraduate               | (116,176)        | (117,465)        | (119,852)        | (123,227)        | (127,208)        | (132,026)        | (144,091)        | (152,527)        | (159,242)               | (154,896)               | (4,346)                   |
| Graduate                    | (25,346)         | (25,318)         | (25,682)         | (25,629)         | (26,114)         | (26,666)         | (28,487)         | (30,531)         | (31,020)                | (32,166)                | 1,146                     |
| Health Sciences             | (12,619)         | (12,604)         | (12,277)         | (12,544)         | (12,578)         | (12,578)         | (12,726)         | (13,130)         | (12,366)                | (12,366)                | 0                         |
| California State University | 253,376          | 262,428          | 267,984          | 273,928          | 281,782          | 290,554          | 316,395          | 331,353          | 334,914                 | 341,587                 | 6,673                     |
| Undergraduate               | (218,529)        | (225,624)        | (228,909)        | (233,155)        | (238,923)        | (246,511)        | (267,100)        | (276,607)        | (279,611)               | (284,880)               | (5,269)                   |
| Graduate/Post-baccalaureate | (34,847)         | (36,804)         | (39,075)         | (40,773)         | (42,859)         | (44,043)         | (49,295)         | (54,746)         | (55,303)                | (56,707)                | (1,404)                   |
| Community Colleges          | 870,720          | 902,839          | 925,328          | 961,049          | 998,297          | 1,041,829        | 1,105,000        | 1,128,954        | 1,104,030 <sup>2/</sup> | 1,137,150 <sup>2/</sup> | 33,120                    |
| Hastings                    | 1,216            | 1,284            | 1,156            | 1,140            | 1,116            | 1,198            | 1,200            | 1,262            | 1,250                   | 1,250                   | 0                         |
| <b>Total Students</b>       | <b>1,279,453</b> | <b>1,321,938</b> | <b>1,352,279</b> | <b>1,397,517</b> | <b>1,447,095</b> | <b>1,504,851</b> | <b>1,607,899</b> | <b>1,657,757</b> | <b>1,642,822</b>        | <b>1,679,415</b>        | <b>36,593</b>             |

<sup>1/</sup> Budgeted. Estimated enrollment is 198,628 for UC

<sup>2/</sup> Figure reflects DOF projection of budget FTES. There is insufficient data to project unfunded or over-cap levels.

FIGURE HIED-2

**Higher Education Expenditures**  
**General Fund, Lottery Funds, State School Fund,**  
**Local Revenues and Student Fees**  
(Dollars in Millions)

|   | 1995-96          | 1996-97           | 1997-98           | 1998-99           | 1999-00           | 2000-01           | 2001-02           | 2002-03           | 2003-04           | 2004-05           | One-Year Change |             |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------|-------------|
|   |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   | Amount          | Percent     |
| University of California <sup>1/</sup>    |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                 |             |
| Total Funds                               | \$2,769.2        | \$2,963.9         | \$3,096.9         | \$3,480.6         | \$3,694.6         | \$4,228.0         | \$4,482.6         | \$4,418.5         | \$4,519.5         | \$4,505.7         | -\$13.8         | -0.3%       |
| General Fund                              | 1,917.7          | 2,030.3           | 2,180.4           | 2,517.8           | 2,715.8           | 3,191.6           | 3,322.7           | 3,150.0           | 2,868.2           | 2,670.5           | -197.7          | -6.9%       |
| California State University <sup>1/</sup> |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                 |             |
| Total Funds                               | 2,229.2          | 2,417.8           | 2,513.5           | 2,741.1           | 2,813.1           | 3,104.5           | 3,433.2           | 3,525.9           | 3,677.2           | 3,587.9           | -\$89.3         | -2.4%       |
| General Fund                              | 1,629.7          | 1,824.5           | 1,872.4           | 2,098.7           | 2,175.4           | 2,429.0           | 2,680.7           | 2,697.1           | 2,622.5           | 2,409.6           | -212.9          | -8.1%       |
| Community Colleges                        |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                 |             |
| Total Funds                               | 3,894.2          | 4,200.4           | 4,619.3           | 5,014.5           | 5,315.4           | 5,993.4           | 6,457.1           | 6,640.7           | 6,360.9           | 6,866.9           | \$506.0         | 8.0%        |
| General Fund & P98 <sup>3/</sup>          | 2,948.4          | 3,208.2           | 3,531.0           | 3,747.4           | 4,136.8           | 4,510.4           | 4,701.1           | 4,860.5           | 4,485.4           | 4,900.6           | \$415.2         | 9.3%        |
| Student Aid Commission (GF)               | 236.8            | 264.7             | 295.2             | 343.4             | 385.4             | 487.4             | 544.0             | 569.0             | 630.2             | 684.0             | \$53.8          | 8.5%        |
| Other Higher Education <sup>2/</sup>      |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |                 |             |
| Total Funds                               | 156.3            | 190.2             | 181.1             | 180.4             | 205.4             | 223.9             | 207.5             | 180.6             | 211.6             | 318.9             | \$107.3         | 50.7%       |
| General Fund                              | 146.7            | 177.2             | 168.3             | 166.7             | 192.0             | 209.6             | 192.3             | 165.0             | 191.9             | 293.6             | 101.7           | 53.0%       |
| <b>Total Funds</b>                        | <b>\$9,285.7</b> | <b>\$10,037.0</b> | <b>\$10,706.0</b> | <b>\$11,760.0</b> | <b>\$12,413.9</b> | <b>\$14,037.2</b> | <b>\$15,124.4</b> | <b>\$15,334.7</b> | <b>\$15,399.4</b> | <b>\$15,963.4</b> | <b>\$564.0</b>  | <b>3.7%</b> |
| <b>General Fund</b>                       | <b>\$6,879.3</b> | <b>\$7,504.9</b>  | <b>\$8,047.3</b>  | <b>\$8,874.0</b>  | <b>\$9,605.4</b>  | <b>\$10,828.0</b> | <b>\$11,440.8</b> | <b>\$11,441.6</b> | <b>\$10,798.2</b> | <b>\$10,958.3</b> | <b>\$160.1</b>  | <b>1.5%</b> |

<sup>1/</sup> For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

<sup>2/</sup> The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU and HCL.

<sup>3/</sup> For purposes of comparing with UC and CSU General Fund, CCC includes property tax revenue as a component of the state's obligation under Proposition 98.

Governor's Budget proposes the following fee increases for both UC and CSU in 2004-05:

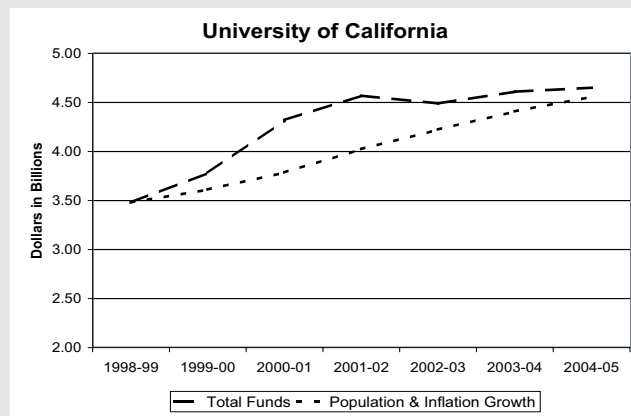
- A 10 percent increase in the systemwide undergraduate fee, which would raise this fee from \$4,984 to \$5,482 per year at UC, and from \$2,046 to \$2,251 per year at CSU.
- A 40 percent increase in the systemwide graduate fee, which would raise this fee from \$5,219 to \$7,307 per year at UC, and from \$2,256 to \$3,158 per year at CSU.
- A 20 percent increase in the out-of-state surcharge, which would raise this fee from \$13,730 to \$16,474 per year at UC, and from \$8,460 to \$10,152 per year at CSU.

Program adjustments for each higher education segment are discussed below. Enrollments for 2004-05 are indicated in Figure HIED-1. Total funding levels (exclusive of capital outlay) are shown in Figure HIED-2.



## Key Audit Findings— University of California

- From 1998-99 to 2003-04 General Fund growth increased about 15 percent while enrollment grew 27.4 percent.
- While the total of all funds available for University operations in 2003-04 was \$13.8 billion, only approximately \$4.5 billion was available for basic core instructional and research related operations, reflecting growth of about 30 percent since 1998-99. The remainder of the funds are for designated uses, and are not available to support basic core operations.
- Options for controlling costs in 2004-05 include increasing the student-to-faculty ratio, eliminating General Fund support of outreach, reducing or eliminating support for special research programs, eliminating support for the Digital California Project, reducing the set-aside for institutional financial aid, and raising student share of costs, particularly for graduate students and professional schools.



## University of California

### Functions of the University of California

UC provides graduate and undergraduate instruction, and is the only segment authorized to independently award doctoral degrees as well as professional degrees in law, medicine, dentistry, and veterinary medicine. In addition, UC is the primary State-supported academic agency for research. UC has three missions: instruction, public service, and research. In addition to providing instruction, UC operates teaching hospitals and clinics, research institutes and laboratories, agricultural field stations, and the Cooperative Extension program.

### Program Enhancements and Budget Adjustments

The Governor's Budget provides total funding of \$4.5 billion for UC including \$2.7 billion from the General Fund. The 2003-04 mid-year spending reduction proposal includes General Fund reductions of \$29.9 million to UC's 2003-04 budget. The Governor's Budget proposes additional General Fund reductions that, together with the extension of mid-year reductions, total \$372 million for 2004-05. Approximately \$196 million would be offset by proposed student fee increases. The Governor's Budget proposes to allocate the General Fund reductions as follows:

- \$45.4 million by reducing Academic and Institutional Support, which equates to

approximately a 7.5 percent reduction for these functions.

- \$35.2 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$33.3 million by eliminating General Fund support for outreach activities.
- \$24.8 million by reducing by 10 percent the enrollment of new freshmen.
- \$14.3 million by eliminating General Fund support for the Digital California Project. It is anticipated that K-12 schools may contribute voluntarily to continue the most beneficial elements of this program.
- \$11.6 million by reducing General Fund support for research by 5 percent.
- \$9.3 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- \$4 million by eliminating the General Fund support augmentation for the Multi-Campus Research Units for Labor Studies.
- \$62.9 million by increasing undergraduate fees by 10 percent.
- \$57.7 million by increasing graduate fees by 40 percent.
- \$42.6 million by decreasing by 25 percent the General Fund subsidy for professional school students, except for those in nursing programs.
- \$32.6 million by increasing the surcharge for out-of-state students by 20 percent.

The Governor's Budget also proposes the following significant General Fund baseline augmentations for UC:

- Restoration of \$80.5 million of the unallocated reduction implemented in 2003-04, that was intended by the Legislature to be one-time in nature.
- \$10 million in one-time funding for costs associated with making the UC Merced campus operational in 2005-06.
- \$34.4 million for increases in annuitant health and dental benefit costs.

## California State University

### Functions of the California State University

CSU provides undergraduate instruction and graduate instruction through the master's degree and is both authorized to award doctoral degrees in conjunction with UC or a private institution and to conduct research related to its instructional mission. CSU enrolls students from the top one-third of the state's high school graduates, as well as those transfer students who have successfully completed specified college work. Many CSU students are older and/or employed and attend part-time, especially at the graduate level.

### Program Enhancements and Budget Adjustments

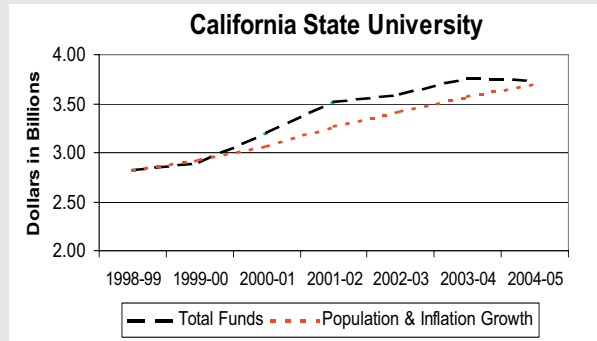
The Governor's Budget provides total funding of \$3.6 billion for CSU including \$2.4 billion from the General Fund. The 2003-04 mid-year spending reduction proposal includes General Fund reductions of \$23.7 million to CSU's 2003-04 budget. The Governor's Budget proposes additional General Fund reductions that, together with the extension



## Key Audit Findings— California State University

- From 1998-99 to 2003-04 General Fund growth increased about 18 percent while enrollment grew 24 percent.
- While the total of all non-restricted funds for CSU in 2003-04 was \$5.5 billion, the basic operating budget for direct and indirect instructional costs, including General Obligation Bond debt service, was only \$3.6 billion, an increase of about 29 percent since 1998-99. The costs are funded from three primary sources: State General Fund (\$2.6 billion), student fee and services revenues (\$971 million) and the State Lottery Education Fund (\$39 million).

The other \$1.85 billion in non-restricted funds budgeted for CSU in 2003-04 are primarily for student-centered activities such as housing, food services, and parking (\$1.3 billion), federally funded student financial aid (\$251 million), and a variety of auxiliary activities specified by the federal government (\$301 million).
- Options for controlling costs in 2004-05 include increasing the student-to-faculty ratio, eliminating General Fund support of outreach, reducing the set-aside for institutional financial aid, and raising student share of costs.



of mid-year reductions, total \$311 million for 2004-05. Approximately \$101.5 million would be offset by proposed student fee increases. The Governor's Budget proposes to allocate the General Fund reductions as follows:

- \$52.6 million by reducing Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$53.5 million by increasing the student-to-faculty ratio by approximately 5 percent.
- \$52 million by eliminating General Fund support for outreach activities.
- \$21 million by reducing by 10 percent the enrollment of new freshmen.
- \$24.4 million for the first phase of eliminating the General Fund subsidy for students who exceed by more than 10 percent the minimum number of units required to earn their degree.
- \$6 million by deferring 10 percent of General Fund support for the Common Management System.
- \$47.4 million by increasing undergraduate fees by 10 percent.
- \$37.9 million by increasing graduate fees by 40 percent.

- \$16.2 million by increasing the surcharge for out-of-state students by 20 percent.

The Governor's Budget also proposes the following significant General Fund baseline augmentations for CSU:

- Restoration of \$69.5 million of the unallocated reduction implemented in 2003-04, that was intended by the Legislature to be one-time in nature.
- \$155 million for increased Public Employees' Retirement System retirement contribution costs beginning in the current year.

## Hastings College of the Law

### Functions of the Hastings College of Law

Hastings was established in 1878 as the Law Department of the UC. However, it is an independent entity that today grants professional school law degrees in conjunction with the UC. Special concentrations include International and Comparative Law, Civil Litigation, Public Interest Law, and Taxation.

### Program Enhancements and Budget Adjustments

The Governor's Budget provides a total budget of \$33.5 million for Hastings in 2004-05 including \$8.1 million in General Fund. The 2003-04 mid-year spending reduction proposal includes unallocated General Fund reductions of \$302,000 in the current year. The Governor's Budget proposes additional General Fund reductions that, in conjunction with extension of the current year reductions, total \$3.4 million for 2004-05. Approximately \$3 million would

be offset by student fee increases. The Governor's Budget proposes the following reductions:

- \$2.8 million by reducing the General Fund subsidy for law students by 25 percent.
- \$402,000 by reducing Academic and Institutional Support, which equates to approximately a 7.5 percent reduction for these functions.
- \$188,000 by increasing the surcharge for out-of-state students by 20 percent.

## California Community Colleges

### Functions of the California Community College

Community colleges are publicly supported local education agencies that offer academic and vocational education at the lower division level for both younger and older adult students; advance California's economic growth and global competitiveness through education, training, and services that contribute to continuous workforce improvement; and provide remedial instruction to hundreds of thousands of adults throughout the state through basic skills courses and adult non-credit instruction.

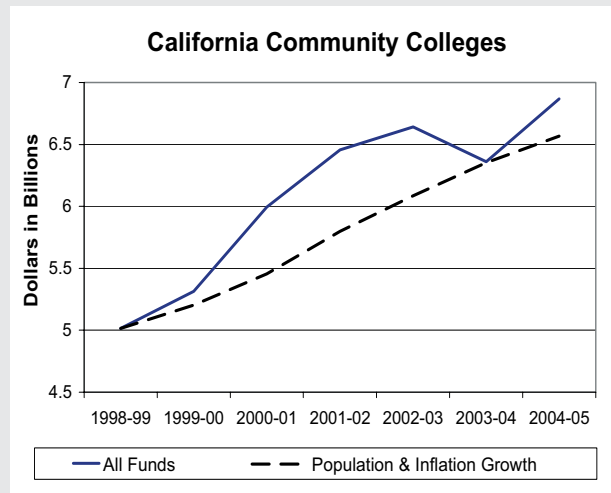
### Improving Accountability and Service Delivery

**Allocation Practices Should Ensure State Priorities Are Met**—In recent years, abusive practices by public school and community college districts were discovered that resulted in excessive claims for concurrently enrolled K-12 students, especially for physical education classes. Although reductions were



## Key Audit Findings— California Community Colleges

- Total funding in 2003-04 was \$6.4 billion from all sources, reflecting a 27 percent increase since 1998-99. FTES served increased by over 147,000 for a 15 percent increase. While the General Fund share was \$2.4 billion, reflecting about a 6 percent increase, property taxes included under the Proposition 98 guarantee increased 43 percent over that time period.
- Increasing student fees from \$18 per unit to \$26 per unit would generate up to \$100 million in additional fee revenue, which would offset General Fund support for the CCC. This fee level would enable students to receive the maximum federal Pell Grant award, whereas CCC fees are currently too low to make this federal benefit fully available to qualifying students.
- The Legislative Analyst's Office has previously estimated the national average at \$64 per unit. Raising fees to the national average would generate up to \$677 million in State savings.



made in the Budget to eliminate a portion of inappropriately earned funding and legislation designed to reform the use of this educational option was chaptered (Chapter 786, Statutes of 2003 [SB 338]), no detailed audits of districts for prior years have been conducted. Moreover, the legislation did not go as far as originally proposed by the Department of Finance. Thus, significant levels of low-priority instructional programs are continuing, denying higher priority course sections for adult students in need of transfer courses, vocational instruction, and basic skills training.

Additionally, the current formula used by the Chancellor's Office to allocate growth funds

does not recognize demand for the state's highest priorities and appears more intended to spread funding broadly and protect district budgets to the detriment of high-growth districts. This practice encourages low-priority course offerings which may contribute to the concurrent enrollment abuses mentioned above and works against efficient use of State funds.

In context of these problems, the Administration will further evaluate the statutory context that contributes to these issues for consideration of improving the allocation of general apportionment funding and growth to encourage better resource allocation for State priorities.

### Student Fees Should Maximize Federal Financial Assistance and Provide Lower Subsidies for Bachelor's Degree Holders—

In order for the CCC to continue to provide a quality education and maintain access during current economic conditions, the Governor's Budget proposes to increase fees from the current level of \$18 per unit, to \$26 per unit in 2004-05. Students that already possess a Bachelor's or higher degree will pay a fee of \$50 per unit. As a result, fee revenue is estimated to increase by approximately \$91 million, replacing a like amount of General Fund. Even with this fee increase, the CCC will continue to be the most affordable higher education system in the nation, with resident students paying less than 40 percent of the national average for community colleges, or \$780 per year for a full 30-unit credit load. Those possessing Bachelor's or higher degrees would pay the equivalent of \$1,500 per year—significantly lower than either UC, CSU, or even the average community college fee for undergraduates in other states.

Consistent with the audit finding, setting fees at \$26 per unit will enable non-degree-holding students to maximize their eligibility for federal Pell Grants, thereby mitigating the effect of the fee increase and bringing additional federal funds to California. Additionally, the Governor's Budget includes funds to offset the fees waived for all students meeting Board of Governors' (BOG) fee waiver guidelines. Roughly 38 percent of all CCC students in 2003-04 received these BOG fee waivers.

### Education Tax Credit

Increasing student fees at California's community colleges to the levels proposed by the Governor's Budget would enable students to access the maximum federal Pell Grant award of \$4,000 per school year. Student fees are currently too low to make the full federal award available to qualifying students, and these federal dollars are therefore not adequately offsetting educational costs for California students. Additionally, not all students may know that if they are making less

FIGURE HIED-3

### Significant Revenue Sources for Community Colleges

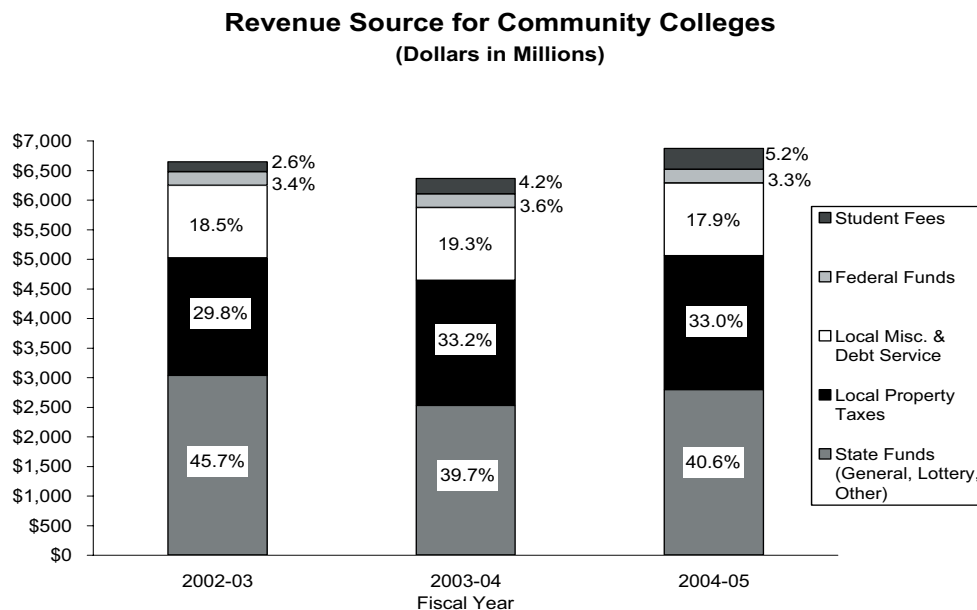
(Dollars in Millions)

| Source of Funds      | 1994-95          | 1995-96          | 1996-97          | 1997-98          | 1998-99          | 1999-00          | 2000-01          | 2001-02          | 2002-03          | 2003-04              | 2004-05              | Change From 2003-04 |             |
|----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|----------------------|----------------------|---------------------|-------------|
|                      |                  |                  |                  |                  |                  |                  |                  |                  |                  |                      |                      | Dollars             | Percent     |
| State General Fund   | \$1,342.7        | \$1,600.3        | \$1,872.5        | \$2,108.3        | \$2,259.7        | \$2,551.5        | \$2,796.8        | \$2,847.0        | \$2,879.5        | \$2,370.6            | \$2,636.1            | \$265.5             | 11.2%       |
| Lottery Fund         | 100.7            | 107.4            | 95.4             | 108.7            | 117.8            | 126.2            | 121.0            | 138.1            | 141.2            | 140.9                | 140.9                | \$0.0               | 0.0%        |
| Local Property Taxes | 1,332.0          | 1,348.1          | 1,335.7          | 1,422.7          | 1,487.7          | 1,585.3          | 1,713.6          | 1,854.1          | 1,981.0          | 2,114.8              | 2,264.4              | \$149.6             | 7.1%        |
| Student Fees         | 174.9            | 166.9            | 163.5            | 166.5            | 160.2            | 155.2            | 156.7            | 164.0            | 169.2            | 265.1                | 356.1                | \$91.0              | 34.3%       |
| Other State Funds    | 7.0              | 7.1              | 6.4              | 7.4              | 7.3              | 10.0             | 12.4             | 11.9             | 11.3             | 11.0                 | 10.9                 | -\$0.1              | -0.9%       |
| Federal Funds        | 146.1            | 143.7            | 142.1            | 150.0            | 160.8            | 185.5            | 197.5            | 225.9            | 228.2            | 228.2 <sup>1</sup>   | 228.2 <sup>1</sup>   | \$0.0               | 0.0%        |
| Local Miscellaneous  | 533.8            | 517              | 582              | 652              | 817              | 697.0            | 987.5            | 1,184.0          | 1,199.1          | 1,199.1 <sup>1</sup> | 1,199.1 <sup>1</sup> | \$0.0               | 0.0%        |
| Local Debt Service   | 1.7              | 3.6              | 3.1              | 4.2              | 4.4              | 4.6              | 8.2              | 30.7             | 31.1             | 31.1 <sup>1</sup>    | 31.1 <sup>1</sup>    | \$0.0               | 0.0%        |
| <b>TOTAL REVENUE</b> | <b>\$3,638.8</b> | <b>\$3,894.1</b> | <b>\$4,200.4</b> | <b>\$4,619.3</b> | <b>\$5,014.5</b> | <b>\$5,315.4</b> | <b>\$5,993.4</b> | <b>\$6,455.7</b> | <b>\$6,640.6</b> | <b>\$6,360.8</b>     | <b>\$6,866.8</b>     | <b>\$506.0</b>      | <b>7.6%</b> |

1/ 2003-04 and 2004-05 updated revenue estimates for federal, local miscellaneous and local debt service were not available as of Governor's Budget.



FIGURE HIED-4



than \$80,000 per year they may be eligible for a federal tax credit equal to their entire fee payments, up to \$1,000 per year, during their first two years of college. Fully accessing this tax credit could offset student costs and bring more federal dollars to California.

### Program Enhancements and Other Budget Adjustments

The Governor's Budget proposes \$6.9 billion for the CCC through a combination of State revenue, local property taxes, federal funds, student fees, lottery proceeds, and other local miscellaneous revenues. Of this amount, \$4.7 billion, including over \$2.4 billion in General Fund, counts toward the Proposition 98 guarantee. Figure HIED-3 shows total funding for the CCC in 2004-05. Figure HIED-4 shows the funding sources and their proportions from 2001-02 through 2004-05. Significant augmentations and other changes include:

- **\$125.1 million for Enrollment Growth—** This augmentation proposes 3 percent growth in apportionments that provides access for an additional 33,000 FTES, for a total of 1,137,150 FTES in 2004-05. This level of funded growth exceeds the 1.83 percent change in adult population, which is the current statutory index for system growth. Moreover, in context of expected enrollment attrition of some students in response to proposed fee increases, the Governor's Budget should provide space for significantly more new students because it does not capture any estimated attrition savings. The categorical reforms discussed below also will provide approximately \$4 million to fund additional growth in non-credit FTES.
- **\$80 million for Equalization—** Allocations are proposed to be made to districts currently funded below the 90<sup>th</sup> percentile of FTES funding systemwide. These allocations will

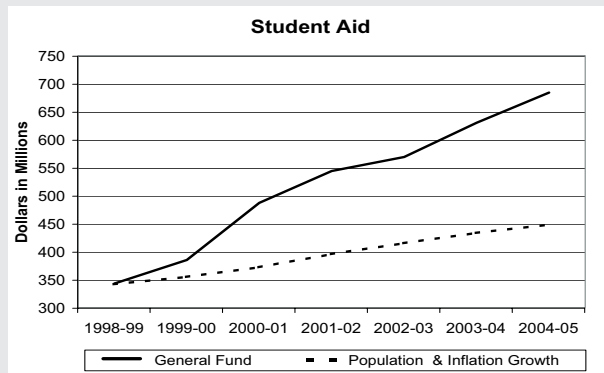
serve to reduce current disparities between districts, providing students with more uniform and equitable access to campus resources on a statewide basis. The equalization formula proposed is consistent with the current statutory formula used for K-12 districts.

- **Categorical Reform**—In order to provide additional flexibility to districts, the Governor's Budget consolidates several groups of programs into single larger programs and increases available discretionary funding in exchange for maintaining accountability for state priority student outcomes, similar to the priorities associated with the sunset Partnership for Excellence. These

consolidations are based either upon the programs currently having similar funding mechanisms or related purposes, and will allow each CCC district to better address its own unique needs, student populations, job environments, and local expectations. Separate programs totaling \$300.8 million, including Matriculation, three Part-Time Faculty programs, the Partnership For Excellence, and district allocations for technology are proposed to be shifted to general purpose funding allocations. Additionally, other programs are combined to reduce the overall number of programs. Finally, two small programs, Teacher and Reading Development Partnerships and the Fund for Instructional Improvement, will be

### Key Audit Findings— Financial Aid Programs

- The Budget Act of 2003 provided the California Student Aid Commission a total of \$682.9 million in General fund for Local Assistance, reflecting increases of \$339.5 million (or 98.9 percent) above the 1998 Budget Act.
- Increases were mainly attributable to the enactment of the Cal Grant Entitlement Program in 2000. Prior to the entitlement, the number of Cal Grant awards was limited to funding provided in the 2003 Budget Act. Awards were made to financially needy students on a competitive basis. With the entitlement, recent public high school graduates who meet the minimum academic and financial need requirements will receive an award. Funding for entitlement awards has increased from \$101 million in 2001-02 to \$404.3 million in 2003-04 (or 300 percent).
- The need to keep pace with the number of eligible high school graduates has placed a significant fiscal pressure on the State. Options for reducing costs include increasing eligibility requirements, offsetting Pell Grant awards, and reducing the number and amount of awards.





discontinued and their funding made available for growth in non-credit FTES.

**Mid-Year Spending Reduction Proposals—** Implementation of Control Section 4.10 from the 2003 Budget Act resulted in the permanent reduction of \$1.87 million (all fund sources) and 32.5 positions from state operations in the CCC Chancellor's Office in the current year. While this reduction was required in order to reach the control section's statewide reduction requirements of \$1.1 billion and 16,000 positions, this and earlier reductions together have reduced the Chancellor's Office staffing by 35 percent since 2001-02. The categorical reform proposal will not only help districts reduce administrative expenditure tracking, but should substantially reduce unnecessary grant administration by the Chancellor's Office.

## Financial Aid Programs

### Functions of the California Student Aid Commission

California Student Aid Commission (CSAC) administers State financial aid to students attending all segments of public and private postsecondary education. CSAC administers federal and State authorized financial aid, including loans that are federally guaranteed, grants, and work-study programs.

### Improving Accountability and Service Delivery

In order to help control the rapid growth in costs of Cal Grants and other financial aid programs in context of the current fiscal situation, the Governor's Budget proposes the following policy changes and reductions:

- \$32.7 million by reducing the maximum Cal Grant award for students at private colleges and universities from \$9,708

FIGURE HIED-5

### Financial Aid Grants General Fund and Fee Revenue Funded (Dollars in Thousands)

| Institution/Fund Source                       | 1995-96          | 1996-97          | 1997-98          | 1998-99          | 1999-00          | 2000-01          | 2001-02            | 2002-03            | 2003-04            | 2004-05            |
|---|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| University of California <sup>1/</sup>        | \$180,700        | \$195,481        | \$196,427        | \$212,299        | \$226,864        | \$234,054        | \$259,700          | \$287,761          | \$355,654          | \$388,758          |
| General Fund                                  | 62,644           | 62,260           | 60,251           | 69,228           | 85,563           | 85,563           | 69,199             | 52,199             | 52,199             | 52,199             |
| Fee Revenue                                   | 118,056          | 133,221          | 136,176          | 143,071          | 141,301          | 148,491          | 190,501            | 235,562            | 303,455            | 336,559            |
| California State University <sup>1/, 2/</sup> | 110,047          | 114,588          | 115,974          | 120,527          | 127,386          | 131,618          | 135,563            | 132,716            | 208,867            | 217,917            |
| General Fund                                  | 47,659           | 47,684           | 48,417           | 54,180           | 65,647           | 65,647           | 65,647             | 51,147             | 51,147             | 33,785             |
| Fee Revenue                                   | 62,388           | 66,904           | 67,557           | 66,347           | 61,739           | 65,971           | 69,916             | 81,569             | 157,720            | 184,132            |
| Community Colleges <sup>1/</sup>              |                  |                  |                  |                  |                  |                  |                    |                    |                    |                    |
| General Fund                                  | 94,050           | 100,486          | 101,636          | 95,275           | 85,928           | 89,351           | 91,853             | 94,609             | 161,606            | 251,793            |
| Student Aid Commission <sup>1/</sup>          |                  |                  |                  |                  |                  |                  |                    |                    |                    |                    |
| General Fund                                  | 236,768          | 264,671          | 295,199          | 343,409          | 385,379          | 487,438          | 543,962            | 569,024            | 630,165            | 683,999            |
| <b>Total</b>                                  | <b>\$621,565</b> | <b>\$675,226</b> | <b>\$709,236</b> | <b>\$771,510</b> | <b>\$825,557</b> | <b>\$942,461</b> | <b>\$1,031,078</b> | <b>\$1,084,110</b> | <b>\$1,356,292</b> | <b>\$1,542,467</b> |
| General Fund                                  | 441,121          | 475,101          | 505,503          | 562,092          | 622,517          | 727,999          | 770,661            | 766,979            | 895,117            | 1,021,776          |
| Fee Revenues                                  | 180,444          | 200,125          | 203,733          | 209,418          | 203,040          | 214,462          | 260,417            | 317,131            | 461,175            | 520,691            |

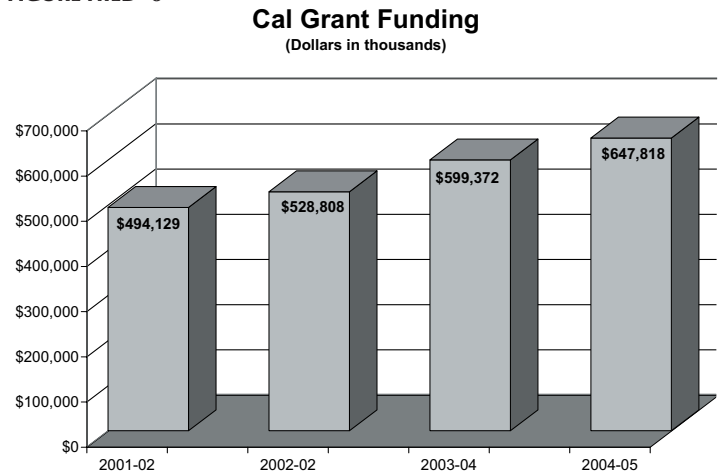
<sup>1/</sup> Reflects budgeted amounts for 2003-04 and 2004-05.

<sup>2/</sup> Includes \$14 million GF for EOP grants through 1998-99 and \$17 million from 1999-00 to 2003-04.

per year to \$5,482 per year. The latter figure is equivalent to what the annual undergraduate fee will be at UC, after the proposed 10 percent increase takes effect in 2004-05. This proposal would only impact new awards and would not affect awards issued before 2004-05.

- \$11.2 million by reducing the maximum allowable income for Cal Grant recipients by 10 percent. This proposal would not impact recipients who received an award issued before 2004-05.
- The Administration proposes to decouple Cal Grant awards from the tuition levels at UC and CSU. Otherwise, following current policy would require that Cal Grant awards be increased to cover the undergraduate fee increases proposed for UC and CSU. This policy change would avoid approximately \$23.6 million in additional General Fund costs in 2004-05.
- The Governor's Budget reduces the number of Assumption Program of Loans for Education warrants from 7,700 to 3,500, consistent with the proposed change in the mid-year revision. Reducing the annual number of new awards will save out-year costs of as much as \$46 million for each cohort as the warrants are redeemed. Moreover, in order to maximize the value of warrants issued, the Administration proposes that priority for awards be focused to students that are interested in pursuing teaching careers in areas where the needs are greatest (including mathematics, science, and reading, and providing instruction to students who are visually impaired).

FIGURE HIED-6



### Program Enhancements and Other Budget Adjustments

The Governor's Budget provides \$684 million General Fund for the CSAC's financial aid grant programs in 2004-05, an increase of almost \$53 million after the 2003-04 mid-year spending reduction proposal is considered. (See Figures HIED-5 and HIED-6 for total financial aid and growth in CalGrants, respectively). The mid-year proposal includes General Fund Cal Grant reductions of \$50 million for the current year, reflecting estimated savings in the cost of awards from the amount estimated in the 2003 Budget Act. In addition to the savings proposals identified above, the Governor's Budget also includes the following General Fund baseline caseload increases to financial aid programs for 2004-05:

- \$43.7 million for growth in the Cal Grant Program. This reflects a net \$93.7 million year-to-year increase from the revised 2003-04 level projected by the CSAC.
- \$2.1 million for growth in the Assumption Program of Loans for Education Program and Law Enforcement Personnel Dependents Program.